

Sanitized Copy Approved for
Release 2011/01/18 :
CIA-RDP85T00875R00170003

Sanitized Copy Approved for
Release 2011/01/18 :
CIA-RDP85T00875R00170003

CIA/DER/IM 72-35

Douglas

25X1

Confidential



DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Romania and the United States: The Command Economy
Looks Further West*

CIA
DOCUMENT SERVICES BRANCH
FILE COPY
DO NOT DESTROY

Confidential

ER IM 72-35
March 1972

Copy No. 89

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
EXCLUDED FROM AUTOMATIC
DOWNGRADING AND
DECLASSIFICATION

CONFIDENTIAL

25X1

**CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1972**

INTELLIGENCE MEMORANDUM

**ROMANIA AND THE UNITED STATES:
THE COMMAND ECONOMY LOOKS FURTHER WEST**

Introduction

1. During 18-29 March, Romania's top economic official, Vice President Manea Manescu, will visit the United States as the guest of the President's Council of Economic Advisors. Manescu will meet with President Nixon, US Government officials, and business and banking leaders in several major US cities. The purpose of the visit is to discuss the further development of US-Romanian economic and political relations and to provide Manescu with a glimpse of US techniques in economic planning and forecasting, marketing, and corporate management. Manescu's visit is the latest in a growing series of contacts, highlighted by reciprocal visits of Presidents Nixon and Ceausescu in 1969-70. Romania, having a larger share of its total trade with the West than any other country of the Council of Mutual Economic Assistance (CEMA), has been seriously negotiating for improved economic relations with the United States off and on since 1964. This memorandum examines Romania's economic position on the eve of Manescu's visit and prospects for trade and cooperation with the United States.

Summary and Conclusions

2. The United States is seen by Romania as a potential source of markets for Romanian products, advanced machinery and technology, and long-term credit. Interest in US machinery and credit undoubtedly has been heightened by Romania's mounting debt burden in Western Europe.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

CONFIDENTIAL

25X1

CONFIDENTIAL

3. Increasing foreign exchange constraints have recently caused a slowdown in Romania's trade with the West, although the Western share of total trade (45%) still is larger than in any other East European country.* Romanian exports to the West - primarily grain, petroleum products, and lumber - face uncertain and fluctuating demand and in some cases severe import restrictions. Romania has gone deeper into debt in the Industrial West (about \$900 million) than any other East European country. Consequently, its future exports are heavily mortgaged to the point where even moderate increases in imports from the West over the next few years will result in rising hard currency indebtedness, which could reach \$1.2 billion to \$1.9 billion by 1975.

4. Romania's exports to the United States have been insignificant -- only \$13 million in 1971. Although sales of a few commodities can probably be expanded, especially with the benefits that would be derived from lower tariffs if MFN status were granted, Romanian exports are not expected to grow dramatically in the next few years. The narrow range of Romania's saleable products, the distance to the US market, and differences in US and West European consumption patterns are all seen as factors limiting the market potential for Romanian exports in the near future.

5. Imports from the United States in 1971 totaled \$53 million, a sharp increase from only \$17 million as recently as 1967, but still a very small share of Romania's total imports from the West. To continue rapidly expanding their imports, however, the Romanians will require credit terms comparable to those available in Japan and Western Europe - seven to ten years at 6%-7% interest. US government guarantees of such US commercial bank financing would probably bring a surge in Romanian purchases of machinery.

6. US-Romanian economic contacts probably will expand in spite of mediocre trade prospects. The upcoming visit of Manescu is another link in an expanding series of business exchanges, joint venture explorations, and high-level political talks - not all with the sole aim of expanding the volume of trade. Manescu, for example, at least seems as interested in US marketing techniques as in the market itself.

* Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.

CONFIDENTIAL

CONFIDENTIAL

Discussion

The Romanian Economy

7. Romania's economy is fashioned along Soviet lines, heavily centralized and emphasizing rapid development of heavy industry at the expense of consumer goods and services. Spurred by large investments, and by imports of Western equipment, industrial output tripled in the 1960s. Even faster growth was achieved in chemicals, machine building, electric power, and ferrous metallurgy -- the areas of highest priority. This expansion was mainly responsible for an average growth of 6% a year in Romania's gross national product (GNP). GNP per capita is now about \$1,200, more than in Greece or Yugoslavia, but still much less than in the USSR or the more advanced East European countries.

8. Agricultural output has increased about 2% a year in the 1960s, enough to supply a slow improvement in the diet and a substantial surplus of grain and other products for export. Weather disturbances, however, still cause sharp fluctuations in output, and supplies are often inadequate to support rising exports.

9. Romania's better-than-average endowment of natural resources is an important factor contributing to economic growth while providing a means for minimizing economic dependence upon the USSR and Eastern Europe. Excluding the USSR, Romania has the largest deposits of petroleum and the second largest natural gas deposits in Europe. Romania also has substantial reserves of timber, coal, and hydroelectric power potential. Annual production of gold, while about 1% of world production, probably is greater than in any other country in Europe except the USSR.

10. Romania has traditionally had a tightly controlled economy -- even by East European standards. Furthermore, Romania's role as a "maverick" among CEMA nations since the early 1960s, although not resulting in any damage to its economy, has undoubtedly worked to inhibit certain forces for economic decentralization which were at work in some East European countries before the mid-1960s. By maintaining nationalistic policies in the face of opposition from the USSR and other CEMA members, Romania has lived with fears of possible retaliation, ranging from trade boycotts to armed invasion. Under such conditions, the leadership likely has viewed tight central economic controls as an essential part of maintaining national security.

11. As Romania has industrialized, its economic policy has become increasingly concerned with raising productivity, increasing exports of

CONFIDENTIAL

CONFIDENTIAL

processed goods, reducing dependence on industrial imports, and improving the terms of trade. Like other Communist countries, it has tinkered with the system of planning and management in order to raise economic efficiency. In the late 1960s the Romanians began to experiment with administrative decentralization.

12. A major feature of the decentralization is the establishment of about 200 economic units -- industrial centrals, combines, and groups -- between the ministerial and enterprise level, similar to those in East Germany and Poland. These units have replaced and taken over the functions of many of the general directorates of the ministries. They have broad control over groups of enterprises and over many of the planning and management functions previously exercised by the ministries. Typically, one of the new units directs several enterprises grouped by product -- vertically, horizontally, or territorially. Many Romanian officials have been moved from the ministries to the new centrals and even to enterprises and agricultural units.

13. In keeping with earlier tradition, Romania's reorganization of economic administration is not intended as a move away from central control but, to the contrary, to help in carrying out centralized decisions. Romania, in its turn, is trying to introduce "scientific" planning. In principle, plan directives are based on solutions of programs at each bureaucratic level. The constraints become narrower as the planning process goes from ministries down to enterprises, or sections of enterprises. The centrals filled a supposed gap in the bureaucratic decisionmaking process, both in planning and in management.

14. The Romanian foreign trade conference held in early 1971 has resulted in some changes in the conduct of foreign trade. Industrial centrals and even certain large enterprises appear to have acquired some additional responsibility for foreign sales and purchases, and producers are to be paid for export shipments only when the Foreign Trade Bank has received payment from abroad. Also, Ceausescu reemphasized in a recent speech that imports will require greater justification than in the past, and approval of import applications has become increasingly contingent upon a firm's ability to offset imports with exports.

Trade and Indebtedness, 1959-71

15. Romania carries on 45% of its trade with non-Communist countries, while the average for the other East European countries is about one-third. This unique trade position is explained in part by Bucharest's desire to become less dependent on the USSR and on the more developed East European countries. Romania in the early 1960s shifted a substantial

CONFIDENTIAL

CONFIDENTIAL

part of its exports from East to West. Still, in order to finance rising imports, Romania willingly went deeper into debt to the West, relative to exports, than any other CEMA country. Between 1959 and 1967 the share of the non-Communist countries in total Romanian trade rose from 20% to 48%. This share slipped to 45% in 1968 and has changed little since then, for two principal reasons. Exports of foodstuffs declined because of unfavorable agricultural developments in 1968 and 1970, and imports of machinery were reduced after having assured fulfillment of the investment plan for 1966-70.

16. Romania has incurred continuous deficits in its commodity trade with the Industrial West totaling \$1.5 billion in 1960-70 (see Table 1).

Table 1

Romanian Trade with the Industrial West

| Million US \$ | | | | |
|---------------|-----------------|----------------|----------------|----------------|
| <u>Year</u> | <u>Turnover</u> | <u>Imports</u> | <u>Exports</u> | <u>Balance</u> |
| 1958 | 153.8 | 74.4 | 79.4 | 5.0 |
| 1959 | 150.1 | 74.5 | 75.6 | 1.1 |
| 1960 | 293.0 | 147.5 | 145.5 | -2.0 |
| 1961 | 406.5 | 221.4 | 185.1 | -36.3 |
| 1962 | 438.9 | 255.5 | 183.4 | -72.1 |
| 1963 | 473.3 | 264.8 | 208.5 | -56.3 |
| 1964 | 545.0 | 314.7 | 230.3 | -84.4 |
| 1965 | 601.8 | 347.2 | 254.6 | -92.6 |
| 1966 | 781.4 | 445.4 | 336.0 | -109.4 |
| 1967 | 1,118.6 | 707.2 | 411.4 | -295.8 |
| 1968 | 1,087.3 | 672.6 | 414.7 | -257.9 |
| 1969 | 1,172.0 | 711.4 | 460.6 | -250.8 |
| 1970 | 1,303.9 | 755.8 | 548.1 | -207.7 |

In the same period there were cumulative surpluses of some \$400 million in trade with the less developed countries and a small surplus in trade with Communist countries.

17. Little information is available on current account transactions other than trade. Romania has a small merchant fleet and incurs sizable deficits on freight and insurance. Income from tourism, although small, has risen rapidly. Total hard currency tourist earnings in 1959-70 amounted to between \$150 million and \$200 million. The value of earnings from transportation of and ransoms for Jewish and German emigrants to the

CONFIDENTIAL

CONFIDENTIAL

Free World is unknown but may have been sizable. Overall the current account deficit with the Industrial West was probably not much smaller than the trade deficit of \$1.5 billion. These deficits have been covered largely by credits from West European countries.

18. Romania's outstanding indebtedness to the Industrial West at the end of 1970 amounted to an estimated \$900 million. Estimated drawings on medium-term and long-term credits during 1959-70 totaled about \$1.8 billion and repayments some \$865 million. Repayment periods on these credits go up to ten years. In addition, cumulative interest payments totaled approximately \$215 million. Of credits drawn from industrial Western countries by Romania since 1959, West Germany accounts for the single largest share - perhaps as much as two-fifths. Other countries which have extended sizable credits are France, Italy, the United Kingdom, and Japan.

19. The Romanians have received some hard currency loans from Western banks, other Communist countries, and Soviet banks in the West. For example, the Soviet-owned Moscow Narodny Bank in London, together with Manufacturers, Hanover Ltd., have granted a \$7.7 million loan to Romania for financing aluminum technology and know-how to be purchased from American Metal Climax, Inc. In late 1970 the People's Republic of China extended a hard currency loan to the Romanians [redacted]

[redacted] This was probably used to help defray the cost of repayments to the Free World.

25X1

25X1

20. The hard currency balance-of-payments situation has become increasingly difficult. Trade deficits, which ran below \$100 million a year before 1966, had grown to \$200 million-\$300 million a year during 1967-70. At the same time, debt service obligations, very small in the early 1960s, had built up to around \$210 million by 1970.

Trade Prospects Through 1975

21. Concern over their heavy indebtedness with the Industrial West has led the Romanians to plan a slow growth in hard currency imports during 1971-75. Total turnover is to increase about 50% to 55%, with exports rising 82% and imports growing only about 25% to 35%. The Romanians would like to increase hard currency exports more rapidly than total exports and hold hard currency imports under the growth in total imports. The Romanians will, however, encounter great difficulties in meeting these goals. They cannot possibly increase hard currency earnings fast enough, while allowing some rise in imports, to avoid incurring deficits on current account through 1975. Thus indebtedness will continue to rise, but at a slower pace than in 1966-70

CONFIDENTIAL

CONFIDENTIAL

22. Because of the large trade deficit and the growing debt service burden, and even though its exports to the Industrial West should increase at least 10% per year in 1971-75, Romania will have to draw on credits almost as much in 1971-75 as in 1966-70 to permit any growth in imports. Bucharest will probably increase imports from the West by 4% to 8% a year; the credits required will increase to perhaps \$1.4 billion to \$2.2 billion over the five-year period. Romania's hard currency indebtedness at the end of 1975 would then range between \$1.2 billion and \$1.9 billion. Romania probably will try to keep indebtedness near the lower end of this range.

23. Among approximately \$250 million worth of installations and technology already contracted for by the Romanians for delivery during 1971-75 are know-how and equipment for two large irrigation projects (United Kingdom); an ammonia and synthetic gas installation based on natural gas (West Germany); a polyethylene plant (Japan); a nitrophosphate fertilizer plant (United States and Norway); a dimethylterephthalate plant (West Germany); and machinery and equipment for the Renault automotive plant (France). The Romanians also are interested in importing from the West a 600-megawatt natural uranium reactor (Canada); a vinyl chloride plant; know-how and equipment for expansion of the aircraft industry (France, United Kingdom, and the United States); computers and computer technology; and a bearings plant.

24. Besides attempting to increase exports by traditional methods, the Romanians are looking into the possibility of getting Western firms to take as partial payment a share of the output of plants they install (compensation contracts). Also, they are trying to make barter arrangements in obtaining strategic raw materials -- particularly crude oil and metals -- from the less developed countries. In 1969, for example, Romania signed an agreement with India for the importation of 22 million metric tons of iron ore during 1971-80 in exchange for ore carriers, refinery technology, and industrial equipment.

Trade with the United States

25. Between the early postwar years, when Romania received substantial credits and grants from the United States, and the early 1960s, US-Romanian economic relations were at a minimum. With the conclusion in March 1960 of an agreement covering certain US claims against Romania, the two countries signed a statement signifying that both countries wanted to expand trade. As a result an Office of the Commercial Secretary of the Romanian Legation was opened in New York in 1961. No other action followed until 1963, when the United States, encouraged by the assertion of Romanian independence, took several steps toward relaxing export controls.

CONFIDENTIAL

CONFIDENTIAL

26. As a result of trade talks held in Washington in 1964, the US Government agreed to establish a procedure under which most nonstrategic commodities could be exported to Romania without an individual license. In addition, the United States agreed to grant licenses for a number of individual industrial facilities containing advanced technology in which Romania is interested. Both countries agreed to raise their respective legations to embassies. The United States did not agree to grant tariff concessions, all of which had been withdrawn from Romania in 1952, but did agree to facilitate the financing of Romanian purchases in the United States. The Export-Import Bank was authorized to guarantee US commercial credits to Romania. In March 1968 this authority was withdrawn in compliance with the Fino Amendment to the Export-Import Bank Charter legislation, which denied the Bank's services to Communist countries supplying North Vietnam. The Romanians have provided military as well as economic aid to North Vietnam.

27. For this and other reasons, the results of the 1964 agreement have been meager. To be sure, total Romanian trade with the United States more than tripled during 1965-69 and doubled in 1970 alone, largely as a result of large Romanian grain imports necessitated by the floods. In 1970, trade reached a total turnover of about \$80 million; Romanian imports ran \$66.4 million compared with only \$13.4 million worth of exports. As shown in Table 2, Romania sells mainly fuels and consumer goods in return for industrial materials and agricultural products. The trade has been volatile, dropping by 20% to \$65 million in 1971.

28. Clearly, the United States has not played the part envisioned in 1964 in supplying Romania with technology and equipment. At the time of the trade talks, Romania had expressed the hope of importing from the United States \$200 million of the \$1 billion worth of machinery and equipment it had hoped to purchase from the Industrial West during 1966-70. Actually, imports of machinery from the United States have amounted to only a fraction of those hoped for and in 1970 represented only 2% of Romania's total imports of machinery and equipment from the Industrial West.*

29. Romania incurred a cumulative trade deficit of about \$160 million with the United States during 1959-71 (1971 data are from US reporting). Of this, about \$50 million was incurred in 1970 and about \$40 million in 1971. Known sources of financing do not begin to account for the deficit. The only Export-Import Bank-guaranteed loan was the \$16.2 million credit extended in 1965 by the Continental Illinois Bank and Trust Company

* For a list of some US exports to Romania in recent years, see Appendix A. For two examples where the United States has failed to go along with Romanian wishes, see Appendix B.

CONFIDENTIAL

CONFIDENTIAL

Table 2
Romanian Trade with the United States a/
1970

| | <u>Exports to the US</u> | | <u>Imports from the US</u> | |
|--------------------------------------|--------------------------|----------------|----------------------------|----------------|
| | <u>Million US \$</u> | <u>Percent</u> | <u>Million US \$</u> | <u>Percent</u> |
| Agricultural and raw materials | 1.3 | 10 | 31.9 | 48 |
| Fuels | 5.5 | 41 | 15.5 | 23 |
| Chemicals | 1.4 | 11 | 1.5 | 2 |
| Intermediate and semimanufactures | 1.2 | 9 | 11.3 | 17 |
| Machinery and equipment | -- | -- | 5.6 | 9 |
| Consumer manufactures | 3.9 | 29 | 0.5 | 1 |
| <i>Total b/</i> | <i>13.4</i> | <i>100</i> | <i>66.4</i> | <i>100</i> |

a. US Department of Commerce trade statistics.

b. Because of rounding, components may not add to totals shown.

of Chicago to cover the purchase of a catalytic cracking plant from Universal Oil Products. Drawings on Commodity Credit Corporation (CCC) credits amounted to \$10.9 million in fiscal year 1969/70 and \$40.5 million in fiscal year 1970/71. (For a description of CCC credits extended to Romania, see Appendix A.) This leaves roughly \$90 million of financing to account for, which would have had to come from Western banks outside the United States and from surpluses on hard currency transactions with other individual Western countries. For example, foreign banks are providing the financing for a contract signed in 1970 with American Metal Climax, Inc., which is supplying Romania with aluminum manufacturing technology and know-how (see Appendix A).

30. In an attempt to boost relations with the United States, Romania has sent several missions to this country for purposes similar to those espoused for Manescu's visit, including one in 1967 to study economic planning and management. This group was headed by Trofin Simedrea, then First Vice President of the Romanian State Planning Committee. A technical-scientific delegation, led by Deputy Premier Alexandru Birladeanu,

CONFIDENTIAL

CONFIDENTIAL

toured the United States from 19 June to 9 July 1968. Party Chief Nicolae Ceausescu came to the United States in October 1970 to discuss, among other things, economic matters with government officials and to tour US businesses.

31. In late 1969 the Romanians submitted to the US Government a list of equipment they might wish to purchase from the United States. The value of the proposed imports could run as high as \$200 million to \$300 million. Among the items on the list are a heavy water plant for a nuclear power station, facilities for coating steel plates, equipment for cold rolling of electrical sheet, a plant for production of aluminum foil and sheets, and a share of the extensive irrigation projects planned. So far, the Romanians have signed a contract only for aluminum technology. Since 1969 they have also expressed interest in purchasing a polypropylene plant, a flat glass plant, Boeing 707s, assistance in building up the aircraft industry, and licenses for the production of diesel locomotives.

32. The Romanians have stressed that a decision to purchase any large pieces of equipment from the United States is dependent upon the availability of suitable credit. Romania has been able to obtain from Western Europe government-guaranteed private credits with maturities ranging up to ten years and 5% to 7% interest rates. Without US Government guarantees, it is highly improbable that US commercial banks would extend loans at interest rates less than 8.5%. The recent liberalizing of Export-Import Bank regulations to include medium-term credit guarantees and insurance to Romania could lead to growth in US sales of machinery and equipment. This growth, however, may well be limited in the near term by a possible negative reaction by the US financial community to Romania's extremely tight credit position.

33. Furthermore, it is unlikely that the Romanians can export large amounts to the United States to repay such credits. Romanian sales certainly would be helped by MFN status, which would cut the average tariff incidence on Romanian goods from the present level of about 29% to perhaps as low as 10%. (For a run-down on US tariff rates applicable to selected imports from Romania, see Table 3.) However, Romania's export commitments to West European countries leave little slack for expanding sales to the United States. Also, a large part of Romanian sales to Western Europe could not be shifted to the United States because of the distance to the US market, quota restrictions, and differences between West European and US tastes and preferences. The Romanians may, therefore, continue to find it more expedient to buy only the know-how for a particular line of equipment from a US firm and to purchase the machinery from a West European firm. The M.W. Kellogg company of Houston, for example, won a large contract for an ammonia plant for which the

CONFIDENTIAL

CONFIDENTIAL

Table 3

US Tariff Rates Applicable to Selected
Actual and Potential Imports from Romania

| | US Imports from Romania in 1970 a/ (Million US \$) | Applicable US Tariff Rates | |
|--|---|----------------------------|----------------------------------|
| | | 1930 | MFN: Kennedy Round Rate, 1972 |
| Meat in airtight containers -- for example, ham | -- | 3¢ b/ | 3¢ b/ |
| Cheese and curd | 0.5 | 35% c/ | 9% to 15% c/ |
| Sunflower seed oil | -- | 4.5¢ to 4.5¢+20% b/ | 0.9¢ to 0.9¢+4% b/ |
| Oilseeds, oil nuts, and kernels | 0.2 | Free to 3¢ b/ | Free to 1.5¢ b/ |
| Lumber, sawn, planed, etc. | | | |
| Conifer | -- | \$4 d/ | Free |
| Non-Conifer | -- | \$3 d/ | Free |
| Plywood, including veneer panels | N.A. | 40% | 10% |
| Residual fuel oils | 5.4 | 0.5¢ e/ | 0.125¢ e/ |
| Nitrogenous and phosphate fertilizers | N.A. | Free | Free |
| Wine | Insig. | \$1.25 e/ f/ | 37.5¢ e/ f/ |
| Furniture | 1.1 | 40% to 43% | 5% to 12% |
| Clothing and accessories | 1.0 | 35% to 90% | 8% to 35% |
| Footwear | 1.3 | 20% | 8% to 17% |
| Cotton fabrics, woven g/ | 0.3 | 30% to 45% | 3% to 25% |
| Glassware | 0.3 | 60% | 10% to 30% |

a. Total US imports from Romania in 1970 came to \$13 million.

b. Per pound.

c. Cheese.

d. Per thousand board feet.

e. Per gallon.

f. Wine of fresh grapes.

g. Subject to quotas.

CONFIDENTIAL

Romanians are purchasing equipment from the United Kingdom and West Germany because financing terms available from abroad were more favorable than from the United States.

34. The Romanians are interested in getting US firms to participate in joint ventures. Only three joint venture agreements are known to have been implemented. One of these involved an agreement to bottle Pepsi Cola for sale in Romania. Another was an arrangement with Intercontinental Hotels for the construction of a tourist hotel in Bucharest which was completed in 1970. [REDACTED] June 1971, a joint American-Romanian company (Romanda Co., Ltd.) has been created to serve as a conduit for large-scale trade programs, financial services, joint ventures, licensing agreements, management know-how, and technological transfer programs. This company will be set up under the laws of the Bahama Islands and will be financed jointly by the Romanian foreign trade enterprise Terra and Robert B. Anderson Co. Ltd. of New York. The Anderson firm is also negotiating a joint venture to drill for oil in the Black Sea and hopes eventually to finance and construct refineries in Romania in an agreement similar to an existing 50-50 partnership with a group of Yugoslav enterprises. The Romanians have approached both Ford and Corning Glass with joint venture proposals, but neither of the US firms has been willing to accept Romanian terms. Other areas in which the Romanians have suggested US help are the wood processing industry and irrigation projects. In all likelihood, they would insist on paying for a sizable portion of such projects with goods, an arrangement US suppliers probably would not find very attractive, unless convenient reexport or at least resale arrangements could be made in advance and at predetermined prices.

25X1

35. To sum up, the outlook for Romanian trade with the United States appears less bright than for its trade with Western Europe. The US financial community represents Romania's last major untapped source of hard currency credit, but Romania will not make heavy use of it unless US financing becomes competitive with that of Western Europe. The United States has been unwilling for the most part to offer long-term credit (more than five years) to Romania. Western Europe and Japan, on the other hand, are ready sources of bank credits of six to eight years, and in some cases ten years. In the absence of such credit, the limited prospects for growth of Romanian exports to the United States in the next few years may well act to hold down trade turnover between the two countries.

36. The Manescu visit, then, comes at a time of rather limited prospects for short-term expansion of US-Romanian economic relations. Romania is heavily indebted to developed Western countries, and the current five-year plan, now in its second year, has already generally earmarked the country's resources and import requirements for the time being. Even so,

CONFIDENTIAL

CONFIDENTIAL

US unilateral moves in areas of finance, joint ventures, and other areas are always possible, and such moves could greatly alter the course of future US-Romanian relations.

CONFIDENTIAL

CONFIDENTIAL

APPENDIX A

Selected US Exports to Romania

In 1959, Romania signed a contract with the United States, France, Italy, and West Germany for the delivery of a catalytic reforming installation to be installed at the Brazi petrochemical combine. Work on this plant was completed in 1961.

In 1965, Romania signed a contract with Universal Oil Products for the delivery of a catalytic cracking plant to be installed at the Brazi petrochemical combine. An Export-Import Bank guaranteed loan of \$16.2 million was extended by the Continental Illinois Bank and Trust Company of Chicago at 6% interest. Repayments were to start in 1968 and were to extend over a five-year period. The total value of the plant provided by the United States was \$22.5 million. Most or all of the equipment was delivered to Romania in 1966 and 1967.

Corning Glass International supplied technical data (\$6.5 million) and part of the equipment (\$2.8 million) for a plant designed to produce, under a Corning license, glass envelopes (bulbs) for black and white television picture tubes. The plant, located near Iasi, was to have an annual capacity of 500,000 to 800,000 bulbs. Construction of the plant began in June 1968 and was completed in 1970.

In August 1969 a line of CCC credit for \$2.5 million covering US exports of cotton, tallow, and tobacco to Romania was established. The Romanians failed to make use of a previous line valid for the period April 1966 through April 1967. In late 1969 the CCC line was increased from \$2.5 million to \$7.5 million. The authorization period ran through August 1970; nearly all of the credit line was used. In early 1970 a \$2 million line for seeds was extended, and a \$10 million line for barley was made available. After the 1970 flood, the CCC lines of credit were greatly expanded. By the end of 1970 the line available for wheat, cotton, tallow, and tobacco had been raised to \$44 million, the line for barley had been raised to \$24 million, and the line for seeds had been raised from \$2.0 million to \$3.5 million. Thus, since July 1969 a total of \$79 million in CCC credits has been authorized for Romania. As of 7 February 1972, \$21 million was still unused. This residual remains available until 30 June 1972.

Romanian requirements for metallurgical coke have risen sharply with the putting into operation in 1968 and late 1969 of two 1,700 cubic meter

CONFIDENTIAL

CONFIDENTIAL

blast furnaces at the Galati iron and steel combine. Because coke is in short supply throughout the world, the Romanians have encountered difficulties in obtaining sufficient coke supplies. In late September 1969 the Romanian ambassador requested the aid of the US State Department in purchasing coke. He sought 180,000 tons of coke for immediate delivery and 300,000 tons a year during 1970-79. The United States shipped 176,000 tons of coke to Romania in 1969, 351,000 tons in 1970, but only 28,000 tons in the first nine months of 1971. In addition, the United States shipped 65,000 tons of coking coal in 1965 and 63,000 tons in 1970.

American Metal Climax, Inc. is supplying Romania with the manufacturing technology and know-how for a \$10 million aluminum sheet rolling plant.

The plant is scheduled to go into operation by the end of 1972 and is to produce 113,000 tons of aluminum sheet and foil a year.

In 1971, Wellman-Power Gas Inc., a US subsidiary of the British firm Davy-Ashmore, was awarded the contract for engineering, construction, and start-up of four nitrophosphate fertilizer plants to be constructed in Romania. The proprietary equipment is to be supplied by Norsk Hydro of Norway whose NPK (nitrogen phosphorus potassium) process is to be employed in these plants.

25X1

CONFIDENTIAL

CONFIDENTIAL

APPENDIX B

Failures in US-Romanian Negotiations: Two Examples

In April 1965 the Firestone Tire and Rubber Company, yielding to public pressure within the United States, broke off negotiations for the sale to Romania of a polybutadiene rubber plant. The Romanians were upset by this development, for they had considered the plant an important part of their five-year plan for 1966-70.

On 3 March 1970 Romanian embassy officials in Washington made the highly unrealistic request that the United States permit Romania to export to this country an aggregate of 58.6 million square yards of cotton textiles. On being told that the United States could not consider this proposal, they came back on 4 March with the suggestion that the aggregate level be 31 million square yards. US officials told the Romanians that this figure appeared totally unreasonable and excessive as a basis for discussion. These officials advised the Romanians that they could not expect significant expansion of cotton textile exports to the United States. Romanian exports of cotton textiles to this country totaled 1.3 million square yards in 1968 and 5.6 million square yards in 1969.

CONFIDENTIAL